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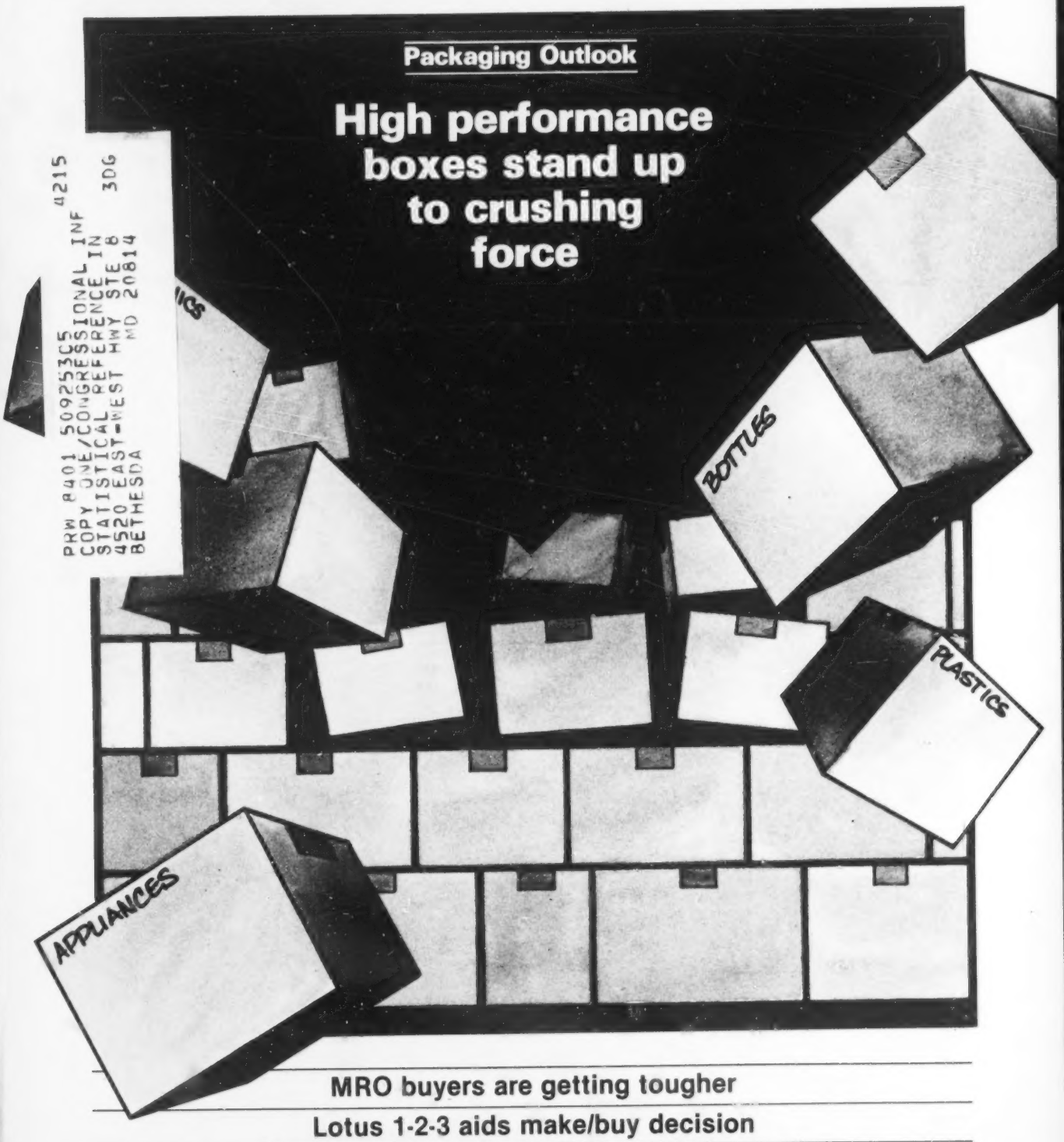
Packaging Outlook

High performance boxes stand up to crushing force



MRO buyers are getting tougher

Lotus 1-2-3 aids make/buy decision

Users keen on EDI, seek new applications

PurchasingWorld

Helping you manage the business of buying

November 1986 Vol. 30 No. 11

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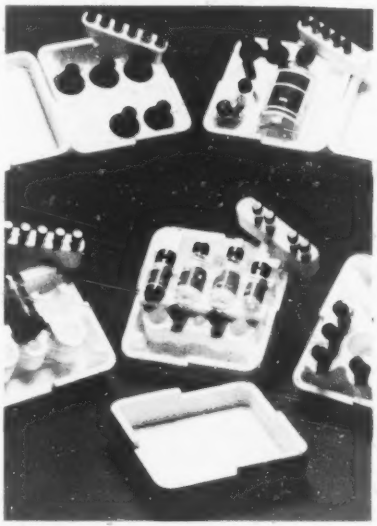

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PW PREDICTS

Robert S. Reichard, executive editor

Inflation jitters unwarranted

Prices have edged up a bit, service costs continue to outpace the general inflation rate, and the dollar remains weak (thus helping to lift import tags). But these factors alone will not bring any radical change. More important price determinants pointing to controlled inflation include:

- **Lingering capacity excesses:** The economy is operating well below its non-inflationary potential. The average factory use rate is 6-7% under the 85% level that usually signals the beginning of supply problems. And new capacity continues to increase. Real growth could probably run at 5% a year for five years before the economy runs into "demand-pull" inflation.
- **Relatively small cost increases:** New surveys indicate that 1987 pay hikes may actually fall fractionally under the current year. And unit labor cost increases are likely to hold at 2-3% for at least another 12 months. Raw material tags are being held down by a global glut while the cost of money continues to fall.
- **Continuing supplier price restraint:** Fewer manufacturers are now talking about new price boosts, as illustrated by a Dun & Bradstreet survey of producers' 4Q expectations.

Some of the inflationary forces being cited by worrymongers may be less potent than commonly supposed. Energy is a case in point. At this stage, any extrapolation of recent oil price increases has to be questionable. Most energy analysts think that crude oil will just hold on to recent gains.

Too much has been made of recent increases in precious metals. The runup appears unrelated to inflationary fears. The real reasons: turmoil in South Africa (the Free World's biggest producer) and increased consumption.

All the talk about the weak dollar and its effect on prices may also be exaggerated. That's because the traditional measures of dollar deterioration do not take into account countries where there has been little or no movement in basic exchange rates.

In addition, these yardsticks have fixed weights based on trade patterns that existed anywhere from 6-14 years ago. One new measure, which corrects for these "mistakes", finds that the actual decline in the dollar's value since early last year comes to only 6%.

Fears of a new food price runup also seem unjustified. To be sure, declines in this sector are about over. While meat prices are likely to rise somewhat in the near future, the still-enormous overhang of grain supplies will prevent any sizable increase in food price averages. Econometric models project only a modest 3-4% increase for next year.

This doesn't mean that we'll see a repeat of the price declines of early summer. It does mean that the underlying rate of inflation is somewhere in the 2-4% range.

Electronics prices

Look for relatively subdued electronics industry demand to spill over into 1987 and 1988.

Analysts at Gnostic Concepts, a California-based market research firm, say that lackluster performance can be traced back to a combination of factors including sluggish business investment, unstable profits, and the negative impact of the new tax reform bill.

Real (constant dollar) output of finished electronic equipment will rise only 7% this year—and maybe 9% in 1987. This won't be nearly enough, says Gnostic, to permit more than a 1% increase in prices next year.

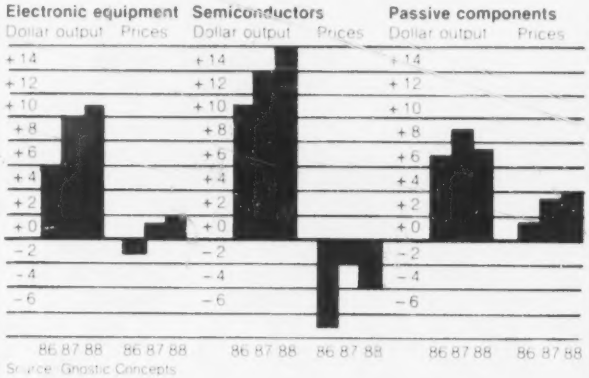
And 1988 won't be much better for the industry. Another relatively small 9% real gain will be accompanied by only about a 2% price advance.

Gnostic's projections for the electronics component sector are akin to the equipment sector—only relatively modest real demand advances for this once-booming sector, reflecting both the fewer components needed in equipment and inventory belt tightening.

Real gains in semiconductors should be only in the 16% range next year—and will rise to only 20% in 1988. But this won't be enough to shore up prices—tags are expected to fall 2% and 4% in 1987 and 1988.

The demand picture for passive components isn't all that bullish either. This less volatile sector will show advances of only 6% in 1987 and 3.5% in 1988. Prices here will be a bit stronger than in semiconductors. Average increases for 1987 and 1988 are projected at 3% and 4%.

Electronic market trends



Source: Gnostic Concepts

PW PREDICTS

Lead

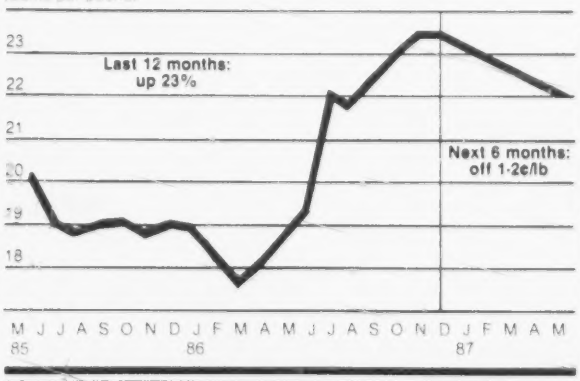
CURRENT SITUATION: Good price recovery here. The current price of about 25¢/lb is up from under 18¢/lb this past winter. Chalk it up to secondary plant shutdowns, tightness in concentrates, mine strikes, and the current seasonal demand push from battery makers. **Another sign of firmness: falling inventories.** U.S. refinery stocks are down to near 80,000 tons—off 37,000 tons since June 1. A similar trend is noted abroad where rising LME tags have risen 2¢/lb this year.

DEMAND: Even with the seasonal push, domestic consumption is not likely to top last year's 1.15 million tons by much because of the phaseout of leaded gasoline which will offset the small increase in battery use. This gain is being kept low by the increased use of longer-life, reduced-lead-content batteries. **Don't look for any dramatic changes in the near future.** Average growth for the next five years will be a meager 1% per year.

SUPPLY: Current snugness may ease as global production returns to more normal levels and demand falls off seasonally by early 1987. There's plenty of secondary capacity around. Reassuring news for the future: The U.S. reserve base is estimated at 27 million tons—a 50-year supply at the current 500,000 ton/year domestic primary production rate.

PRICE OUTLOOK: Another penny or two increase cannot be ruled out over the next month or so—but tags would still be under earlier peaks. Moreover, this firming should be short-lived—some easing is likely in early 1987 as the supply situation improves. **Price declines should be modest—*PW* equations show a low 20s quote by next spring.** This is high enough to keep most of the industry at or above the break even point.

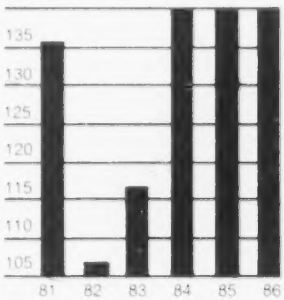
Lead
(Cents per pound)



Magnesium

Don't rule out as much as a 5% price decline by early next year as supplies continue to exceed demand. And the glut could grow as increased Canadian capacity is added in 1987. U.S. metal consumption for 1986 is expected to remain relatively unchanged at last year's 140,000 ton level. Long-term demand is also far from bullish—any increases by the auto industry will be offset by reduced alloy use because of the more intensive recycling of aluminum cans.

Magnesium demand
(000 tons)



Steel

Prices continue to firm, reflecting supply interruptions stemming from the USX strike. Another $15-20/ton sheet increase is scheduled for early January. Hikes were also being posted recently on tin mill products and carbon plate. But tags could fall off once labor problems are resolved. Also on the bearish side: Overall domestic shipments remain quite disappointing. Expect only about a 69-70 million-ton year in 1986. Consumption is following suit—with only a 90 million ton chewup expected this year and an even smaller 86-87 million ton reading likely for 1987.

Telephone switches

Cut-throat competition along with sharp discounting has hit the industry. Reductions have run as high as 10-20%. Behind the precipitous slide: cost-cutting technological advances, heightened Japanese competition, and determination on the part of giants like AT&T, GTE, and the regional telephone companies to hold onto market share. On the latter score, the fiercest competition revolves around "targeted" customers that these big sellers consider crucial. In any case, the big price-cutting spree does seem to presage a shakeout—with perhaps more than half the 30-40 suppliers in the business eventually falling by the wayside.

Low-density polyethylene

Don't count on the newly posted 5¢/lb boost holding. A 1¢ hike may stick—bringing market quotes for the bellwether liner grade into the 26-27¢/lb range. But that's about it. Reasons: 1) Inventories remain high, 2) the increase is far greater than that projected for the plastic's key feedstock (ethylene), and 3) disappointing demand. On the latter score, only about a 0.5% increase is

projected for this year—well under the 4.5% rates of the 1983-85 period. Look for about a 3% rise next year—not even enough to offset the 3.5% increase in production potential expected.

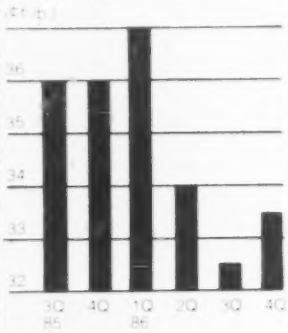
Aluminum

Tags remain on the shaky side because of oversupply and lack of customer demand. Especially weak are common alloy sheet and market ingot (now only in the mid-50s range). Low Third World production costs and fairly stable energy bills are also putting a lid on tags. Then, too, the recent declines in producer stocks seem to have bottomed out. Upshot: continued price easiness into early 1987—with ingot hard-pressed to reach even the 60¢/lb level any time soon.

Polypropylene

Figure on another few cents being added onto the going price—with quotes on the key homopolymer grade likely to settle in the 33-34¢/lb range. Good exports are helping this firming trend along—as year-to-date outgoing shipments run more than 30% above year-ago levels. Other firming factors include 1) rising feedstock costs, 2) an expected 7% increase in overall shipments this year, and 3) a 90%+ operating rate. This volume plastic is also likely to remain strong in 1987. Watch for an even bigger 8% demand jump that will push utilization rates up in the mid-90s range.

Polypropylene price



Homopolymer grade

Industrial valves

Shipments will drop some 2% under 1985 levels—to only $2.31 billion. And little change is expected in 1987 as capital spending in the energy sector remains sluggish. Best showings will be for 1) bronze and corrosion-resistant gate, globe, and check valves, and 2) fall, plug, and all other automated types. But shipments of steel gate, globe, and check valves could drop. Imports are also putting pressure on the domestic industry—incoming shipments this year are running 25% over 1985 levels. Price hikes, in the meantime, should also remain small—with metal valves (excluding fluid power) expected to advance by only about 2% next year.

Zinc

Bullishness is still the order of the day here—with some sellers recently quoting as much as 47¢/lb

Energy

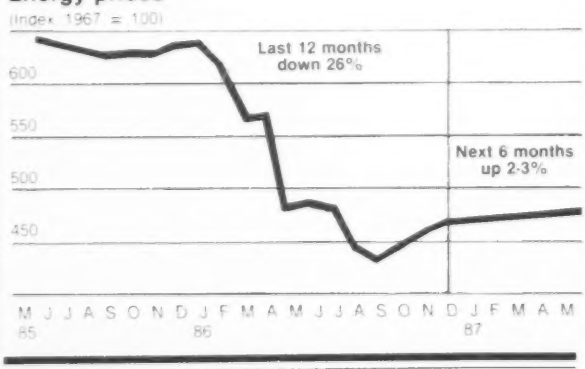
CURRENT SITUATION: Price advances have been modest. Imported crude is still below the $11-13 barrier—half what it was a year ago. Overall energy tags have risen only about 5% since summer—that's 25% under late 1985 readings. With data for most of 1986 in, **consumption will probably show only a 1-1.5% advance, though oil alone could end up with as much as 3%.**

DEMAND: Expect the sluggish pattern of 1986 to continue throughout 1987. The main restraints: slow economic growth and energy conservation. The increase in oil use in 1987 should fall to only 0.5% as utility consumption drops off. Expect these consumption advances for 1987: coal up 2.9% vs. 0.1% in 1986, natural gas up 2.3% vs. -4% this year, and electricity up 3.2% vs. 1.2% this year. Overall energy use will increase by 2.2% vs. 1.2% this year.

SUPPLY: No sweat. Another oil glut can't be ruled out if OPEC members cheat on production quotas. **And there's still more non-OPEC oil coming on stream.** Natural gas looks easy, too with this country estimated to have 3 tcf excess capacity—not counting the Canadian supply. Coal is similar and a good percentage of capacity remains shuttered. Despite a slowdown in utility investment, **there should be enough generating capacity to meet the estimated demand increase of 3%+** in 1987.

PRICE OUTLOOK: Much depends on crude oil tags. Assume a graduai rise in imported crude to $14 bbl by mid-1987 and $15/bbl by the end of the year. Aggregate fuel and power costs could be up 2-3% by mid-1987, with an equal rise in the last half. By late 1987, specific prices should line up as follows: Gasoline $1.03/gal (+16%), utility coal $1.65/million BTU (+1%), utility natural gas $2.90/million BTU (+15%), and residential electricity $8.09/kwh (+3%).

Energy prices



Long-term steel outlook

Further demand declines, combined with still-strong competitive pressures, loom ahead over the next decade for the hard-pressed U.S. steel industry.

A new Chase Econometrics study projects that domestic chewup will shrink to only 89.5 million tons by 1995—off some 7% from last year's estimated levels. Moreover, some product lines such as tin mill products and cold-rolled sheet could decline more than 20%.

There is one exception: an expected 27% jump in demand in galvanized sheet and strip by 1995. This product will displace cold-rolled sheet, especially in the auto sector, as Detroit upgrades the quality of body panels and extends its corrosion-resistance warranties.

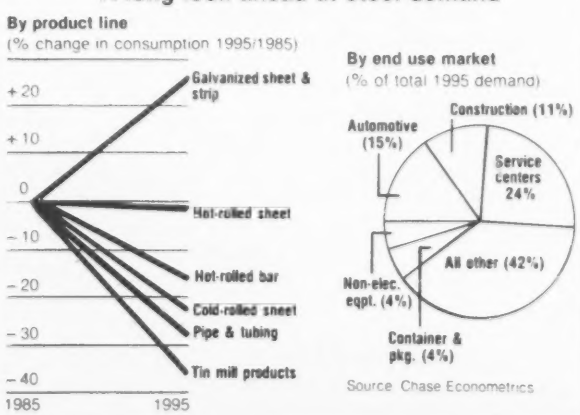
But the fact that so much galvanized steelmaking capacity is being built now suggests increasing competition. In all likelihood, says Chase, auto manufacturers will be able to increase their pressure on the steel industry for lower prices and higher quality.

Also under severe competitive pressure are tin mill products which are expected to lose almost half their markets by 1995. Behind this bleak forecast is the increased use of plastics, aluminum, and aseptic packaging—a market dominated by tin until recently.

Chase analysts also see:

- further U.S. capacity reductions to 96 million tonnes by 1995,
- fewer integrated mills and more mini-mills,
- real price declines for commodity steel products,
- higher steel imports from Brazil, South Korea and other newly industrializing nations,
- a gradual loss of the U.S. steelworker pay premium over both domestic manufacturing and foreign steel workers, and
- declining steel imports through 1988—and then a gradual buildup again starting as early as 1989.

A long look ahead at steel demand



Source Chase Econometrics

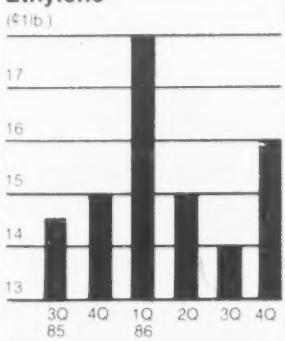
Lumber

Domestic consumption will hit a new peak (46.1 billion board feet) this year—on a combination of 1.8 million-plus housing starts and continued growth in repair and remodeling. But some decline (to 44.3 bbf) is seen for 1987—as housing starts slip a bit. Imports, however, will hold up near this year's estimated 15 bbf. These projections, in turn, suggest that the recent relative strength in prices (some softwood tags are up more than 5% from 1985 levels) will begin to erode. Some buyers see prices down as much as 3-5% by late winter or early spring.

Petrochemicals

The picture is mixed here. Producers are attempting to boost both ethylene and propylene. But butadiene continues to be soft. Ethylene suppliers are shooting for a new 2¢/lb gain to near 16¢/lb—on top of the 0.5-1¢/lb price-boost posted just a month or two ago. A similar 2¢/lb price-boosting attempt is also being made for propylene. On the other hand, butadiene has dropped further (into the 11.5¢/lb range)—on a combination of increased domestic production and cheap imports.

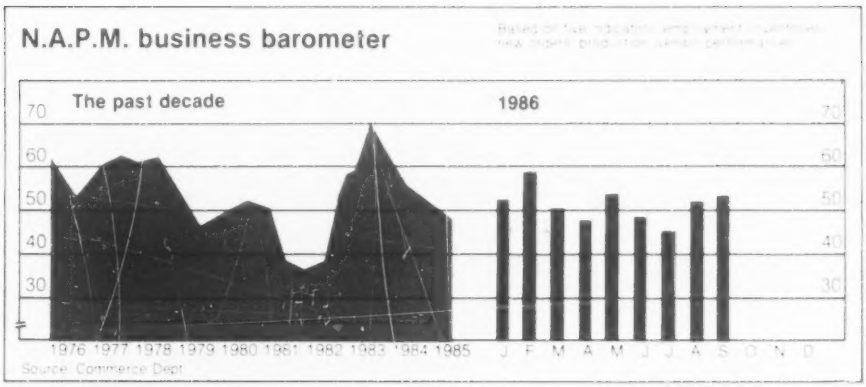
Ethylene



Copper

The red metal continues to bump along in the low-to-mid 60s price range. To be sure, visible stocks are at their lowest level in years (about 9 weeks at current consumption rates). But there is a perception of abundant metal—and that continues to press down on prices. Two other price-rise inhibitors: 1) expected declines in Chinese buying, and 2) reduced costs as new, lowered pay scales knock anywhere from 4-8¢/lb off domestic production tags. The latter can't be underestimated—it could encourage the reopening of domestic facilities—adding to supplies, thus putting a ceiling on any price recovery.

BUSINESS DATATRAK



KEY ECONOMIC TRENDS

Positives leading negatives

Economic fundamentals are still positive. While no big spurt seems in the offing, the trend should continue up through the end of the year and into 1987.

One encouraging sign is the renewed vigor of the N.A.P.M. Business Barometer. After languishing in the negative (under 50) zone for several months in the early part of this year, it is now well into the plus zone (see chart).

Beyond general yardsticks, there are plenty of specific business indicators that seem to be pointing to better days ahead. This is certainly true of interest rates where the prime borrowing cost is expected to hold in the relatively low 7.5% range —two points below what it was a year ago.

Everything else being equal, this has to give buying a shot in the arm. Take a look at how bargain-basement financing has stimulated domestically manufactured car sales. In September, sales ran at 12.3 million annual rate —up nearly three million from the previous month.

Another good sign: continuing low level of business stocks. This is especially true in durable purchased materials where the stock-sales ratio remains at a very low 0.47—10% under last year's reading.

All this is in sharp contrast to the trend in this indicator in comparable stages of business upturns. Reasons for the change this time around are better controls, ready availability of most items, and relatively high inventory carrying costs.

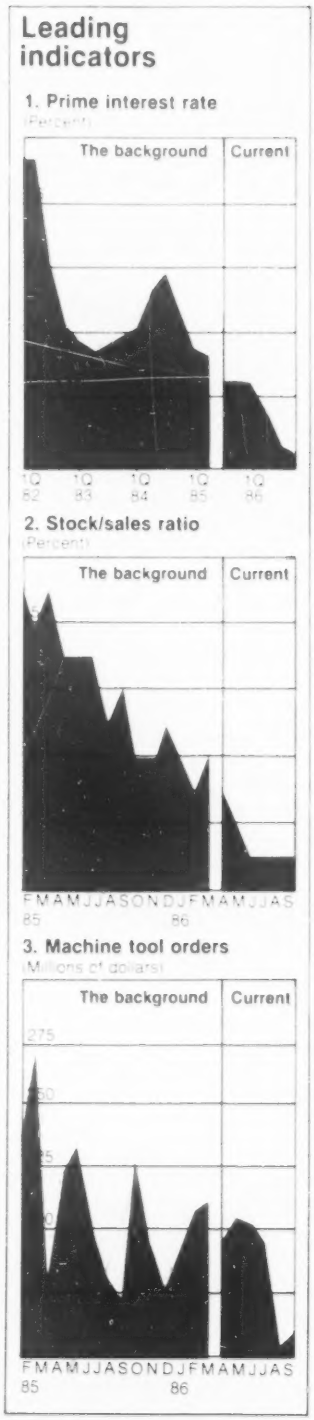
And this doesn't exhaust the list of signs indicating there is still life in the now 4-year-old business advance. The absence of inflation cannot be ignored and the outlook is for continued moderation for at least another year.

Even the trade deficit seems ready to peak out —with imports actually falling in recent months. No one expects miracles, but things should be getting better from here on out as the U.S.-foreign price gap narrows a bit.

The odds also suggest that the deficit will be less burdensome next year. In fact, it could even provide a little contribution to economic growth. Chase Econometrics, for one, sees the gap between imports and exports narrowing by about $13 billion in real terms. This means another $13 billion tacked onto the GNP.

There are a few weak sectors to offset some of the encouraging signs. For one, the housing boom seems to be leveling off. Next year should be a good year, with about 1.7 million new units expected. But this would still be about 150,000 units under the probable 1986 total.

Also, capital equipment leaves a lot to be desired. Machine tool orders are a



case in point. At latest report they were running some 10-15% under last year's levels.

And what's true for machine tools is also true for machinery as a whole. The non-defense capital goods orders are currently running about 5% under a year ago.

Most analysts agree that the overall economic picture is mixed, with both strong and weak spots, but with the strong spots showing a slight edge. A recent survey of 300 members of the National Association of Business Economists finds that most expect the expansion to keep rolling at least through 1987. On the other hand, they put real GNP gain over this period at only 3%—not that much better than this year's 2.5%.

On balance, things look good for scales

New electronic technology should keep demand for scales and weighing systems moving upward. But the gains won't be nearly as spectacular as in the 1970s when sales in constant dollars advanced at almost a 6.5% annual rate.

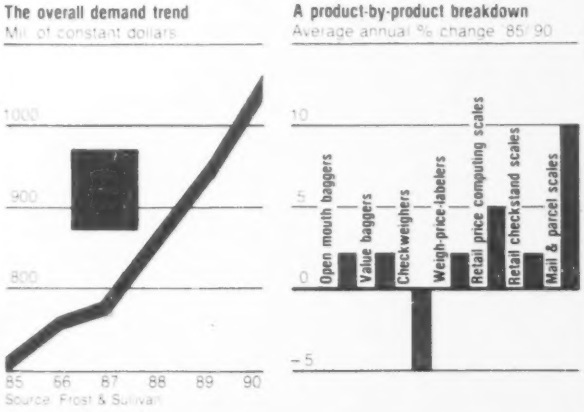
A new Frost & Sullivan study puts the average advance in the 3.5-4% range over the next five years. And much of the gains, they say, will result from the incorporation of additional features on existing product lines.

The biggest increases will be in mail and parcel scales, where built-in microprocessors have greatly simplified scale operation and have made it possible to integrate scales and postage meters.

These types already account for nearly 20% of all U.S. scale sales. Moreover, the proportion could grow as sales advance about 10% annually from 1985 to 1990.

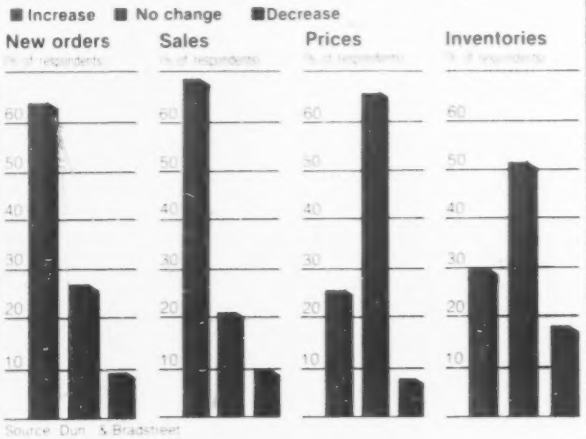
Another above-average growth market: retail price computing scales which already account for about 10% of the overall scale market. They are expected to advance at about 5% annually for the remainder of the decade.

How the scale market shapes up



Source: Frost & Sullivan

How manufacturers see the current quarter



Source: Dun & Bradstreet

Relatively small (2%) gains, however, loom ahead for such other types as open mouth baggers, valve baggers, weigh-price-labelers, and retail checkstand scales. And a few industrial scale types—such as bench, portable, floor and platform, motor truck, and conveyor models—will do little more than hold their own in the years immediately ahead.

Watch for imports, too—incoming shipments account for about 10% of the market (and nearly half come from Japan). But major penetration to date has only been in one area—delicatessen scales.

But whatever the source or type of scale, buyers will have their work cut out just to keep track of the rapidly changing technology. Many scales, for example, now provide features beyond simple indication of weight. Thus more and more models now 1) store commodity information, 2) compute total prices and mailing and shipping charges, 3) interface to drive printers and other peripheral equipment, and 4) transmit data to mainframe computers.

Still some cheer here

Business may be a bit on the sluggish side but no one seems ready to push the panic button yet. In fact, most of the nation's large firms remain quite optimistic—they are expecting some modest gains in the months ahead. The evidence here is quite conclusive.

- The results of the latest Conference Board survey of more than 1,000 business executives suggest a fairly upbeat outlook for the next six months. The consensus is that business over this period will be the same or even slightly better.
- A new Dun & Bradstreet survey reveals that more than 60% of the respondents are looking for an increase in both new orders and sales over the current quarter—com-

pared to the 10% who fear some falloffs (see chart).

The D&B survey also has some optimistic findings on prices. Specifically, only 26% of queried manufacturers see 4Q 1986 prices topping last year's levels. That's five percentage points under three months ago. And 2Q figures were off by 9%.

Inventories should also remain firm. The 30% who see increases are pretty much balanced by another 18% who are planning on declines.

Another upbeat note: Employment is expected to continue inching ahead —as are net profits, with 63% of responding manufacturers projecting a rise for the current quarter.

Commenting on the overall findings, D&B's corporate economist, Joseph Duncan, notes that only the South Central states (the oil producing region) seem weaker. The rest of the country remains basically unchanged from the two preceding quarters.

This month's breakdown

	Latest level (Sept)	% change from: Month ago	Year ago
Bearings	356.9	0.0	0.4
Bolts, nuts, etc	277.6	−0.1	−0.1
Chemicals, inorganic	294.4	−0.2	−2.0
Chemicals, organic	321.1	0.3	−11.0
Concrete products	324.9	0.0	0.6
Corrugated cartons	272.3	2.0	2.2
Cutting tools, small	292.2	0.0	2.0
Electric lamps (bulbs)	344.6	−1.0	−0.6
Electronic components	202.9	0.3	2.7
Fans and blowers	365.8	0.1	1.7
Foundry and forge products	361.7	−0.1	−0.6
Fuel oil (residual)	417.6	15.7	−53.1
Furniture, commercial	318.4	0.1	2.1
Gasoline	338.6	9.0	−49.6
Glass, flat	232.5	−0.7	2.6
Glass containers	400.8	0.2	3.6
Gypsum products	338.4	−1.6	2.2
Hand tools	384.1	0.0	2.3
Hand tools, power driven	238.4	0.3	2.0
Industrial furnaces	395.8	0.2	2.4
Integrating and measuring instruments	237.4	0.4	2.3
Internal combustion engines	353.8	−0.1	1.7
Lubricating oil	368.3	−2.0	−2.7
Lumber millwork	322.1	0.1	2.7
Material handling equipment	297.1	0.1	0.7
Metal containers	362.5	0.0	1.3
Metal mill shapes (nonferrous)	301.0	0.1	−2.0
Metal tanks	297.2	−0.5	−2.6
Motors and generators	353.5	0.1	0.6
Motor trucks	294.9	−3.7	7.8
Office and store equipment	154.4	−.1	0.5
Paperboard	276.8	1.0	4.1
Paper boxes and shipping containers	273.5	1.0	2.1
Paper office supplies	238.1	0.3	0.1
Paint	282.4	0.0	1.9
Plastic resins	291.6	−1.0	−4.4
Precision measuring tools	271.3	1.2	3.1
Pumps and compressors	363.3	0.2	1.9
Refractories	373.4	0.1	0.6
Rubber belts and belting	337.5	0.7	−1.7
Scales and balances	232.6	0.6	1.6
Steel products	348.9	0.2	−3.9
Switchgear	286.9	0.1	1.7
Textiles, synthetic fibers	149.4	−0.1	−3.6
Textiles, gray fabrics	150.2	−1.1	−0.1
Tires and tubes	234.0	0.2	−1.0
Transformers and power regulators	234.1	0.1	0.4
Welding equipment	304.1	−0.2	2.9
Wire and cable	205.6	0.1	−0.3

CURRENT PRICES

Trifling trends

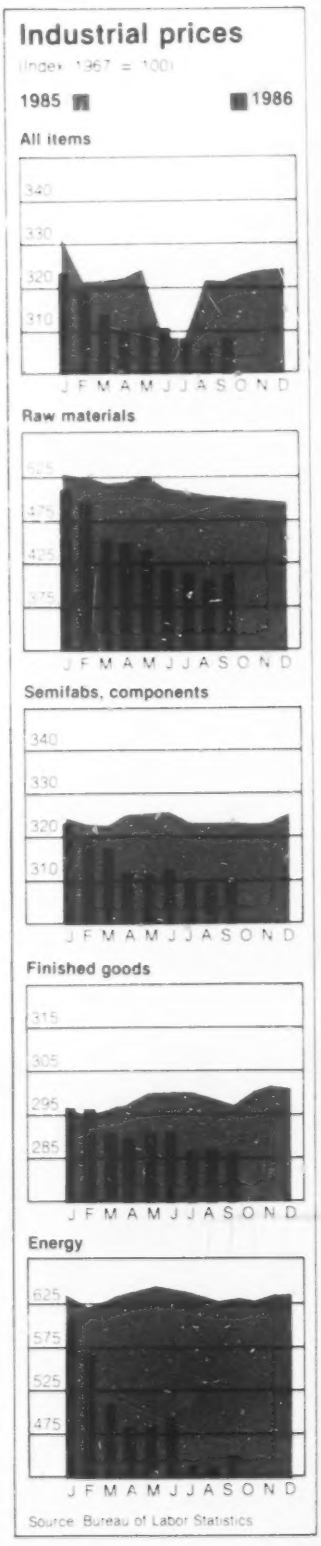
Industrial price averages are beginning to edge up. But the increase mostly reflects the delayed impact of recent boosts in OPEC crude oil rather than any underlying surge in inflationary pressures.

Subtract the overall fuel and power advance (up a hefty 3.6% over the latest month) and the increases in the remaining areas are negligible. In fact, more than half the 50 or so product lines regularly monitored by *PW* remain within 0.2% of where they were the previous month (see accompanying chart).

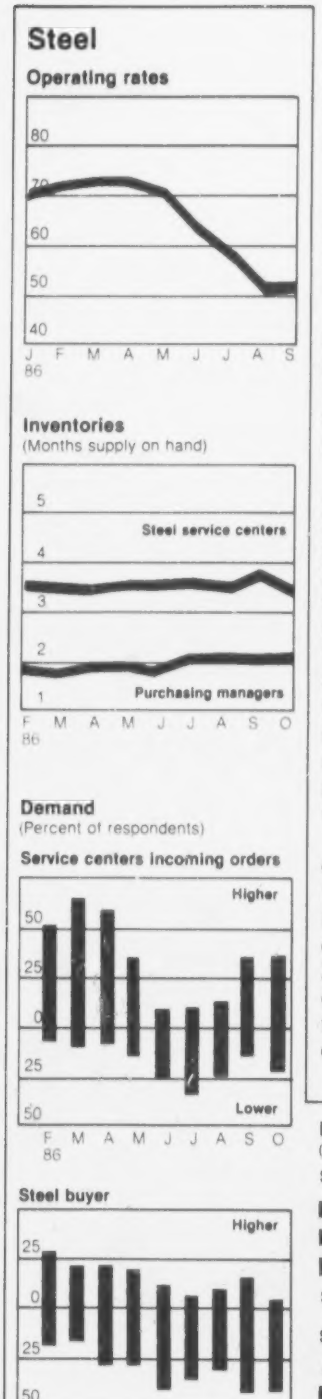
But in energy, big increases were reported in several key areas including crude oil, gasoline, home heating oil, diesel fuel, residual oil, and jet fuel. These far outweighed continuing softness in natural gas and liquid petroleum gas.

About the only other sector showing a meaningful increase was capital equipment—and even here the advance was a manageable 0.4%. Boosts in this sector hit packaging machinery, chemical industry machinery, and communications equipment. But some offset was provided by drops in railroad equipment, turbines, and oil field machinery.

Chemical and related products also remained on the soft side. New declines were reported in industrial chemicals, plastic resins, synthetic fibers, and inedi-



Source: Bureau of Labor Statistics



ble fats and oils. More important, preliminary data suggests that all of these areas will remain under pressure through the end of the year.

Metals also seem to be holding. Only precious metals were up because of the South African turmoil.

But base metals were a standoff, as modest increases in steel and lead were offset by continuing easiness in both aluminum and copper.

Building materials also showed a mixed pattern. Slippage in both gypsum and asphalt products was balanced by some inching ahead in softwood lumber and plywood. But the latter could well peak out and may even fall a bit in the months ahead because of the upcoming seasonal construction slowdown and a tailing off in housing starts.

New econometric models also forecast a non-inflationary near-term pattern. A spot check of several models shows about a 2-3% annual rate of rise in overall industrial tags through yearend and into early 1987.

STEEL SCENE

Still bearish

Recent market reports suggest some seemingly contradictory trends: rising prices during a time of disappointing demand.

But buyers and steel service centers responding to new surveys say the price increases are solely due to the long USX work stoppage. While 37% of queried distributors expect to pay higher prices for inventory replacement over the next few months, they hasten to add that it's just temporary—and that tags will be softer again when the struck mills are back on stream.

Demand forecasts certainly seem to back up this longer-term "buyers' market" assessment. Most producers are talking of only a 69-70 million-ton shipment year in 1986—down 3-4 million tons from 1985 levels. And the consensus is that this could drop another few million tons in 1987.

The latest survey results, which look at the nearer term, are equally bearish. Some 37% of the distributors responding to the latest Steel Service Center Institute (SSCI) survey see some gains. But this is largely offset by another 23% who see some falloff.

Responding to this, SSCI president Andrew G. Sharkey predicts that service centers will have difficulty matching 1985's record pace. As he puts it, "Last year's fourth quarter was our strongest since 1985, but I don't look for a repeat. Some slippage in the months ahead could occur if auto production is cut back and commercial construction continues to lag."

Buyers looking at the fourth quarter provide a similar assessment. The N.A.P.M. Steel Buyer's Group finds that 42% of its respondents expect to cut back on purchases—far outweighing the 3% who expect increases.

While much of the above reflects sluggish consumption, blame can also be placed on continuing inventory retrenchment. Despite the fact that stock-sales ratios are already low, both service centers and buyers seem determined to push them even lower.

Some 49% of the buyers say that they will attempt to cut steel stocks over the next six months (vs. 6% who may add). Some 55% of service center respondents still feel that stocks are too high—again drowning out the 3% who think they are low.

If distributors do cut inventories more, it could mean spot shortages. Sharkey notes isolated problems ahead in certain items in specific sizes and gauges, particularly flat-rolled (including terne plate).

In the meantime, service centers are trying to fill any holes by trading among themselves because there is less spot material available on the docks and because imports are lower.

Buyers are also becoming a bit concerned because of the steel strike. Some expect problems in

coated sheet and maybe in other types of sheet.

And foreign steel bargains seem a bit harder to find. While 45% of queried buyers say that they can still get price breaks, they say the advantage is "slight."

Service centers confirm this. In carbon steel, only 26% note some savings—less than one-third of those who reported savings in a March survey. In all cases the advantage is put in the low 6-10% range.

The only exception is in stainless, where 20% of service centers say they can get discounts of 11-20%. All the remaining distributors put the advantage in the 6-10% range.

One suprise—buyers are still counting on substantial import tonnages despite the smaller U.S.-overseas price gap. Sixteen percent actually expect to increase their dependence on foreign steel—not much less than the 23% who plan on cutting such shipments. This indicates that the drop in imports over the next several months will be relatively slight.

PROCUREMENT STATUS

Still easy after all these months

Despite some fall seasonal pickup and scattered strikes in steel and other areas, the availability picture is still good.

PurchasingWorld's exclusive leadtime index did move up one point above the neutral 50 mark, but this has been the seasonal pattern for several years. It actually indicates very little change in the underlying supply/demand situation.

A closer look at the product lines that make up this index tends to confirm this conclusion. More than 80% of the items tracked month-to-month show little or no change over the past six months. That's the most stable the index has been since *PW* first started tracking these products in 1978.

The N.A.P.M. speed-of-delivery yardstick tells the same story—with the 5% of buyers reporting faster service offsetting the 5% reporting slowdowns. As Robert J. Bretz, chairman of the N.A.P.M. Business Survey Committee puts it, "this indicates that while production is up, vendors are not finding it difficult to meet shipping requirements."

The absence of any items on the N.A.P.M. short-supply list (except titanium dioxide) also attests to the current lack of procurement problems. And that has been the situation for 20 months running.

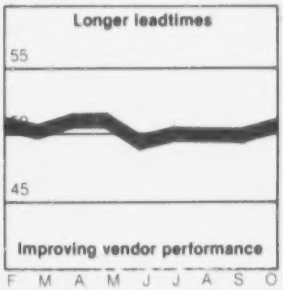
The under-80% average factory utilization rate is still another factor pointing to continued ease. This is unlikely to change over the next few quarters, as an expected 3% annual rate of gain in industrial production is offset by a 2.5% rate of increase in new production potential.

No wonder PMs are playing their inventory cards close to the vest. It is worth noting that N.A.P.M. figures show that more buyers have been reporting stock declines than additions for 25 consecutive months. This is one reason why the government's inventory-sales ratio for purchased durable materials (see chart) is at a new all-time low.

Monthly procurement status report

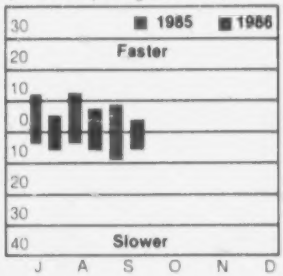
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



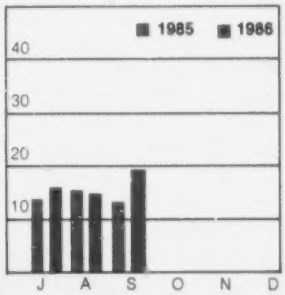
Delivery performance

(Percent reporting deliveries)



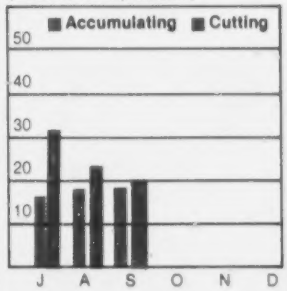
Forward commitments

(% committing 90 days or more in advance)



Inventory strategy

(Percent of respondents)



Source: NAPM

Leadtimes and availability

Chicago: Not too much change here. Typical weekly leads: motors (2-3), pipes, valves, and fittings (1-2), electrical material (1-3), integrated circuits (16-22), coal (2), film laminations (10-12), offset paper (6-8), PVC resins (2), c-r steel sheet (7-8), aluminum sheet (10-12), specialty copper sheet (3-7).

Cleveland: A slight tendency to stretchout, with these weekly leads: hardwood lumber (2-3), plywood (1-2), plastic packaging materials (4-6), and PVC resins (2-3). No appreciable change for alloying metals (on demand), waterproof paper (4-5), corrugated (2-3), and steel drums (on demand).

Los Angeles: Grey iron castings have come in two weeks (to 4-6). Other leads: galvanized steel (12-14), aluminum tubing (4-6), brass castings (8-10), domestic fasteners (6-8), stainless coil (12-14), electromechanical devices (6-8), standard bearings (20-24), standard valves (10-12), and linear ICs (30).

Houston: Little change here. Current weekly leads: high density polyethylene (4.5), polypropylene (4.5), corrugated (3.5), galvanized steel

coils (16), steel fasteners (2), plastic bottles (6), shop fabricated carbon steel pipe (4-13), shop fabricated alloy pipe (8-22), and high-pressure heat exchangers (17-35).

Philadelphia: Steel and bronze valves have inched out two weeks (to 4). Waits for bearings vary from stock to six weeks for standard types and 12-14 weeks for specials. Fasteners run from stock to six weeks for standards and 8-10 weeks for specials. Standard pumps and valves are also 8-10. No change in electronic components or steel.

Pittsburgh: Manganese has come in from 4 to 2 weeks. And ton lots of tin have come in to 2 from 4 weeks. Other prevailing leads: all types of drums (1), plastic bags (3-4), corrugated and folding boxes (3-4), wire-bound boxes (4-5), laminating papers (6-9), steel strapping (2-3), printed seals (3-5), and polypropylene and PVC (5-6).

Leadtimes (in weeks)

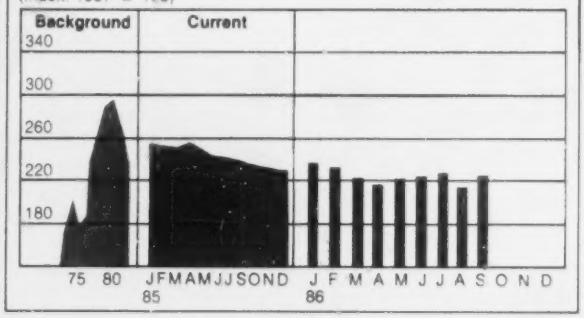
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	7½	7½	7½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	3½	3½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	4	4	4
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	6½	6½	6
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	7	7	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14½	14½	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	9	9	11
Motors (Phil)	9	9	10
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	1½	1½
Plywood (Chgo)	3	3	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2	2	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	13
Aluminum Plate (Chgo)	12	12	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	12
Brass Castings (LA)	9	9	5
Brass Rods (Chgo)	9	9	6½
Brass Sheet (Chgo)	5	5	4
Brass Tube (Chgo)	4	4	7
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	3	3	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	5
Fasteners, Std. (Phil)	3	2½	1½
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	26	26	26
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	24	24	24
Pumps (LA)	11	11	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	220.2
Month before	212.0
Year ago	238.0



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	31.00	31.00	29.25
Steel, plates, Pitts., cwt.	18.25	18.25	23.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	23.25
Steel, sheets, C.R., Detroit, cwt.	25.90	25.90	27.85
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.555	.550	.465
Antimony, N.Y., dealer, lb.	1.12	1.07	1.29
Beryllium-copper, cost ingot, lb.	5.65	5.65	5.35
Brass, red, 85%, [sheet], lb.	1.29	1.28	1.29
Brass, yellow, [sheet], lb.	1.24	1.23	1.24
Cadmium, N.Y., dealer, lb.	1.05	1.00	0.77
Copper, electrolytic, wire bars, refd., lb.	.65	.64	.66
Copper sheet, over 24 in., lb.	1.38	1.37	1.38
Lead, common, N.Y., lb.	.24	.23	.19
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.48
Mercury, 20 fl. lots, N.Y., fl.	178.00	182.00	315.00
Molybdenum, oxide, dealer, lb.	3.15	3.00	2.90
Nickel, cathode, dealer, lb.	1.79	1.82	2.10
Platinum, dealer, oz.	604.00	621.00	315.00
Silver, N.Y., oz.	5.71	5.70	6.03
Tin, N.Y., dealer, lb.	2.58	2.57	5.59
Zinc, Prime West, East St. Louis, lb.	.44	.44	.38
Zinc, die casting alloy, No. 3, lb.	.505	.475	.445
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.25	16.34	16.18
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	580.00	580.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	310.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.218	.222	.257
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.030	.940	1.045
Cotton middling, 1", N.Y., lb.	.398	.330	.563
Printcloth, 48", 80x80, N.Y., spot, yd.	.82	.74	.68
Army duck, 37", 13 oz., yd.	1.45	1.45	1.30
Blended printcloth, 64", 78x54, yd.	.78	.75	.83
20s combed yarns	1.74	1.74	1.95
Wool 64s, Staple, lb.	1.90	1.90	2.03

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.455
Ammonia, anhydrous, tankcars, Gulf Coast, ton	80.00	80.00	N.A.
Benzene, petroleum, tanks, Houston, gal.	.81	.80	1.35
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, sny., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.28	.28	N.A.
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.255	.255	.280
Polypropylene, homopolymer grade (market price), lb.	.32	.32	.35
Polystyrene, general purpose grade (market price), lb.	.33	.33	.35
Polyvinyl chloride, pipe grade (market price), lb.	.275	.285	.260
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.22	.21	.26
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.77	.73	.69
Xylene tanks, gal.	.80	.80	1.36
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	332.65	324.85	318.35
Lumber 2x2 pine, mbf, cl.	315.20	313.00	293.70
Plywood, plyform, ⅜", msf, cf.	592.90	591.25	584.00
Plywood, ⅜", msf, cl.	390.10	385.55	381.55
Cement, bulk, ton, tl.	63.43	63.35	64.91
Sand, ton, cl.	6.62	6.62	6.36
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	45.96	44.83	48.00
Crushed stone, 1½", ton, cl.	7.83	7.78	7.80
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.82	0.83	0.82
Gypsum sheathing, ½"x1"x8", msf, tl.	215.07	217.57	208.19
Brick, common, per thousand, tl.	186.01	185.81	183.70
Asphalt paving, AC-20	136.19	144.97	176.69
Concrete sewer pipe, 12", prem. joint, per foot, cl.	7.36	7.21	7.14
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	11.00	11.00	21.40
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	14.75	14.75	29.50
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.360	.470	.775
Gasoline, 94 oct., reg., Chi., tank car, gal.	.415	.470	.754
Heating oil, No. 2, Chi., bulk, gal.	.411	.450	.805
Heating oil, No. 2, N.Y., bulk, gal.	.420	.463	.840
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.418	.410	.823
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.240	.245	.320
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	76.00	76.00	73.00
Steel, No. 1 hvy., dlvd., Chi., ton	70.00	72.00	71.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.55	.56	.58
Copper, No. 2, East, wholesale buy, dlvd., lb.	.475	.480	.480
Brass, red, East, wholesale buy, dlvd., lb.	.510	.520	.525
Brass, yellow, East, wholesale buy, dlvd., lb.	.31	.31	.33
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.340	.335	.300
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.360	.355	.325
Zinc, old, East, wholesale buy, dlvd., lb.	.17	.17	.11
Lead, clean solids, East, wholesale buy, dlvd., lb.	.14	.13	.10
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	28.00	25.00	10.00
Paper, old corrug. box, dlr., N.Y., ton	23.00	20.00	8.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.09	.09	.09
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.11	.11	.18

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

A peek at 1987 commodity prices is mostly reassuring

The first tentative 1987 commodity price forecasts are beginning to make the rounds. Of special interest to PW readers is one from William V. Doll, president of the Joint Purchasing Corporation (JPC), an organization that makes $125 million in annual purchases for health care and other service firms.

What Bill Doll is telling his clients is good news: No major price acceleration for the upcoming year.

In preparing this preliminary forecast for *PW*, Doll focuses only on items of interest to industrial buyers. (His more complete forecast will be featured in *PW* in the early part of next year).

Here is what he sees now for 1987:

▪ **Engineering and housekeeping products:** These are generally MRO items and run the gamut from batteries and electrical supplies to paper products and fuel oil. Virtually all of his projections are in the tolerable range—varying from a low 2-5% increase for fuel oil to an 8% increase for polyliners (see chart for details).

These boosts are somewhat bigger than those reported for the current year. But that's to be expected since oil tags will be level-to-slightly higher this time around—in sharp contrast to the big drop this past year.

This oil effect can't be underestimated in the MRO category. Doll points out that four of the ten items detailed in this sector are closely tied to crude petroleum—namely fuel oil, polyliners, chemicals and cleaning products, paint, and plant maintenance supplies. There's an added upward factor in polyliners: Resin replacement costs will be rising as current relatively cheap inventories are used up. Hence Doll's forecast for an 8% advance in 1987.

▪ **Office supplies:** Costs could accelerate a bit and, in certain areas such as paper and furniture, increases could run as high as 8%. These sectors are highly labor intensive and with wages continuing to rise, Doll thinks anything lower than this is unrealistic.

Elsewhere, forms and the cost of printing could increase by as much as 7% because of increases in the cost of producing paper, printing chemicals, and other related goods.

▪ **Food:** This category is included in the JPG rundown because many industrial PMs are responsible for purchasing food for their firm's in-house cafeteria services. The picture here is somewhat mixed, with the drought in the Southeast this past summer expected to exert some upward pressure regionally. Forecasted increases are: citrus juices (10%), vegetables (10%), beef (6%), soft drinks (6%), poultry (4%), and eggs (2%). But heading lower will be cooking oil and shortening (as much as -10%) and fruit (-3-8%).

William V. Doll, president of the Joint Purchasing Corporation, New York City, has provided economic forecasts for members of JPC for the past ten years. He has been president of the New York Chapter of the National Association of Purchasing Management since June 1986. He is also co-founder of the Mid-Atlantic Group Network.

A preliminary look at 1987 commodity tags

Engineering & Housekeeping	% change 87/86
Paper products	4-7
Polyliners	8
Chemicals & cleaning prods.	5-6
Fuel oil	2-5
Utilities	5-10
Batteries & lamps	6-9
Plant maintenance supplies	6-9
Paint	5-8
Electrical	4-6
Plumbing	7
Office Supplies & Equipt.	
Fine paper	5-8
Furniture	6-8
Office forms	5-7
Forms	5-7
Office equipt.	6-8
Food	
Vegetables	Up to 10
Citrus juices	Up to 10
Beef	6
Soft drinks	6
Processed dairy products	5
Pork	5
Fish	5
Poultry	4
Eggs	2
Fruit	Down 3-8
Oil & shortening	Down 10
Noncitrus juices	Down 5

Source: Joint Purchasing Corporation

Doll says that the 1987 purchasing climate in general will be highly competitive and he suggests 1) getting as many bids as possible, and 2) putting increased emphasis on long-term contracts.

The Joint Purchasing Corporation chief also sees increased opportunities for price breaks for small and medium size buyers willing to band together to seek volume deals. With this in mind, Doll is beginning to look into ways his firm can do cooperative buying for industrial buyers, particularly in such areas as fuel oil, office equipment, and furniture.

He also adds this final note of caution: "My forecasts, while based on talks with top commodity analysts, buyers, and sellers, could be subject to some revision over the coming months. It will take until early next year before things really crystalize. This is especially true in the commodity areas we're dealing with—sectors where just a modest shift in supply, demand, or cost can cause a significant price swing."

For more information on the Joint Purchasing Corporation **Circle 264**

PW

Price hikes won't hurt much

Robert S. Reichard, executive editor

Packaging price trends at a glance

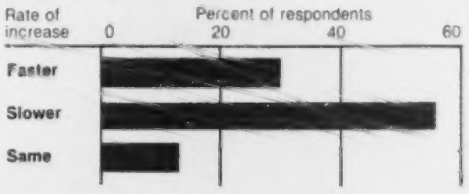
The past 12 months
(A detailed government rundown; % changes)

Corrugated	– 2.8%
Glass containers	+ 3.2%
Metal containers	+ 1.2%
Wood containers	+ 0.3%
Gummed tape	+ 1.1%
Polyethylene bags	– 2.0%
Shipping sacks & multiwall bags	+ 5.5%
Folding paperboard boxes	+ 0.9%
Setup paperboard boxes	+ 1.2%
Sanitary food containers	– 0.2%
Fiber cans & drums	0%
Plastic bottles	+ 0.4%

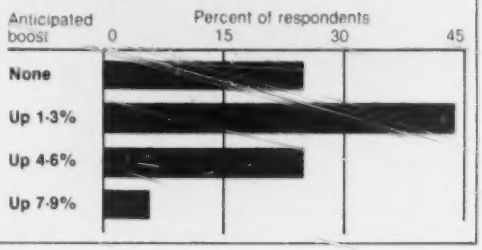
Source: Bureau of Labor Statistics, PurchasingWorld

The next 12 months
(A purchasing manager view)

Compared to the last 12 months



Expected actual increase



Price boosts will be selective rather than across the board—small rather than large—in the months ahead, not a particularly bad scenario for packaging buyers.

But for suppliers of all kinds of packaging materials it will be a welcome departure from the past 12 months when advances were rare.

Here's how packaging buyers responding to a new *PW* survey see the next year shaping up:

- Three out of ten respondents anticipate some acceleration in overall packaging costs in the next 12 months. That's more than double the 13% who say they may actually do better than the current year as far as new price increases are concerned.
- While the exact amount of increase varies—depending on size of firm, product mix, and the amount of buying clout—the overall average advance is put at 2.5%, almost 1% more than noted over the past 12 months.
- The upward price trend will be aided by fairly brisk demand. Confirming this, three out of every ten respondents expect the physical volume of their packaging purchases to increase over the next year. Only two out of ten say that some cutbacks may be in order.

Wharton Econometrics puts the average jump in corrugated box tags at 2.2% next year. That's still a small jump, but it stands in marked contrast to the 4% average decline this year, a decline which is already beginning to reverse.

Wharton's forecast for metal containers also suggests a modest price pickup. Next year's average advance for cans, barrels, and drums is put at 2.5% (vs. only 1.3% during the current year). Only in glass containers is some deceleration suggested, as this year's estimated 3.3% increase slows down in 1987 to just about 2%.

Why the general increase in packaging prices? Buyers offer several explanations: 1) better demand; 2) supplier attempts to recoup 1985 and early 1986 price declines, especially in paper and plastics; 3) increasing prices of some raw materials—again mostly in the paper and plastics sectors.

As one East Coast packaging executive puts it: "It would be unrealistic to expect a repeat of the past few years. But I'm confident we can limit increases to the general inflation rate—and in some cases beat that rate a bit."

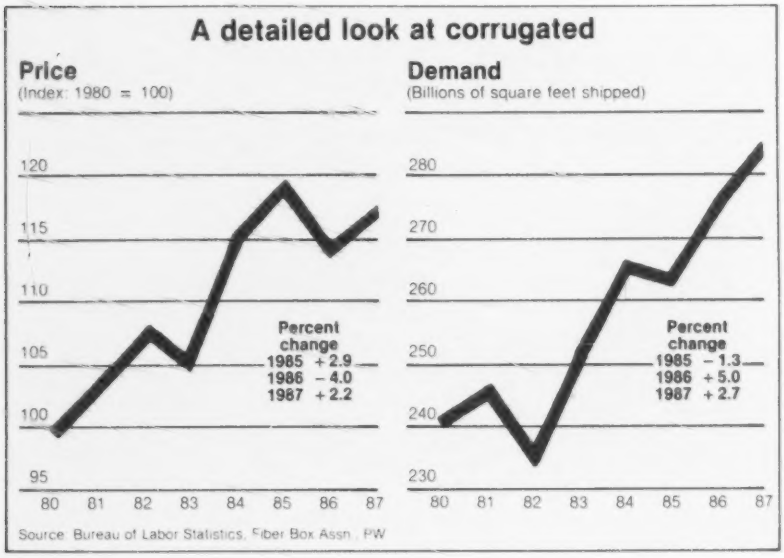
He and other buyers also stress the fact that increases differ substantially from company to company, industry to industry, and by geographical area. This is supported by our survey which shows a wide variation in price changes reported over the past year. Corrugated boxes, for example, increased from nearly zero to about 8%. And substantial price differentials were also noted in the metals and plastics areas.

Keeping this in mind, here's a thumbnail sketch of what buyers see ahead for 1987 in some of the more important packaging sectors:

- **Corrugated:** Nearly everyone agrees that this will be a good year for suppliers—at least in volume. Consensus is that the industry will ship 278 billion square feet by year-end. That's about 5% more than last year and a new all-time peak.

As for prices, converters have already been busy trying to pass along a $30/ton increase in linerboard, the basic raw material of corrugated. But their success to date has been mixed. Thus while a few buyers, as cited above, are paying as much as 8% more than they did earlier, others have so far managed to postpone or at least water down any increases.

And that's not the end of it. Some linerboard producers, for example, are talking about another $30/ton increase in linerboard prices (to



$350/ton) by early next year. But many buyers doubt that this second boost in less than six months can hold up in the marketplace.

■ **Folding cartons:** This sector has been weak for some time. But some attempts to boost prices are starting to appear. Not all have been successful. In fact, about half of the queried buyers still say they have managed to sidestep price hikes. The other half says they're paying about 3-5% more for cartons.

Solid bleached sulfite (SBS) and solid unbleached sulfite (SUS) have tended to be strongest. But even clay coated newsback, a weak sister until recently, is showing signs of moving up a bit.

■ **Paper bags:** Supplies, although adequate, have tightened up somewhat. As for prices, the majority of queried buyers (three out of four) say they are paying somewhat more, with some reported increases over last year in the double-digit range.

■ **Metal cans:** Little or no upward price movement has occurred or is expected to occur here. Yes, a new $15/ton tinplate price increase has been announced for January, but given the competitive aspects of the tinplate market, it's still not clear whether it can hold up.

Aluminum cans aren't all that buoyant, either. One point to keep in mind: A lot of people are building new aluminum can lines, and a surplus could develop within a year or so. Citing this and low basic aluminum prices, one buyer says he plans to press for lower aluminum can prices when his contracts come up for renegotiation at yearend.

■ **Glass containers:** Price increases posted earlier this year have pushed averages close to 3.5% above a year ago. The major factor here has been tight availability because of recent plant shutdowns.

But prices seem to have leveled off in recent months—reflecting somewhat better market balance. Competition from plastics may also be a restraint here. In any case, very little price increase is expected over the next six months.

■ **Plastic bottles:** This fast-growing sector could rack up as much as a 5-6% demand gain this year (to nearly 19 billion units). But prices so far have been fairly stable—reflecting strong competition, generally good supply-demand balance, and low basic resin costs. The latest official government index shows these bottles running only 0.5% above year-earlier levels.

However, some near-term increases can't be ruled out here as resin producers press for higher prices. Up until now, molders have been able to beat these back, but it is not certain that they will be able to continue to do so.

Even if they don't, any overall price increase for plastic bottles is likely to be modest. The basic raw material cost is still determined by crude oil and few experts expect any big increase here, even with the new OPEC production curbs.

This also shows up in projections for resin price increases next year. Most forecasters are calling for only a 3-4% overall plastic resin price increase—hardly enough to force big cost pass-throughs on the part of bottle makers.

Whatever the packaging material, buyers seem determined to hold the price line or, at the very least, keep increases moderate. Some of the techniques being tried include package redesign, use of thinner gauge materials, substitution of one material for another, more vendor participation in cost-cutting efforts, and, of course, hard-nosed bargaining.

Many buyers are also stressing combined purchases from several plants to build buying clout, increased standardization of packages, shifting more of the inventory burden over to suppliers, and extended price guarantees.

One PM tells of a cap he has in his contract which guarantees against any increases in corrugated prices through mid-1987.

The current situation is summed up by one Illinois-based purchasing executive who observes: "Packaging means big bucks for us these days. While we certainly don't want to strangle our suppliers, the feeling is that with a little astute purchasing and planning, we can get through the next year or so with little more than fractional cost increases."